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Weekly Highlights
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- GOA raises the minimum pension by 21 percent and all other pensions by 11 percent.
- GOA to meet next week with Bolivia to agree on price of gas exports to Argentina.
- GOA reportedly will repurchase the GDP-linked warrants from the debt restructuring.
- GOA unblocks beef shipments exempt from the export ban and presents a ARP 860 million cattle sector development program.
- Commentary of the Week: "Sanitary Conditions and Poverty in the Beef Sector"

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GOA raises the minimum pension by 21 percent and all other pensions by 11 percent.
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¶1. In a press conference on May 9, Minister of Labor Carlos Tomada and Minister of Economy Felisa Miceli announced that the GOA will increase the minimum pension from ARP 390 per month to ARP 470, a 21 percent increase. This will be the Kirchner Administration's eighth increase in the minimum pension, an accumulated increase of 213 percent. The GOA also announced an 11 percent increase for all other pensions, the first in fourteen years. These two measures will benefit 3.3 million pensioners and will have a fiscal cost of ARP 2.1 billion in 2006 (the increases will be effective in June) and of ARP 3.5 billion in 2007. The increase in pension will be financed by Anses -- National Administration of Social Security --using its revenues resulting from the increase in formal employment.

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GOA to meet with Bolivia next week to agree on the price of gas exports to Argentina.
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¶2. GOA Ministry of Planning Julio De Vido is

scheduled to meet on May 16 with Jorge Alvarado, the President of YPFB, the Bolivian state oil company, to negotiate the price at which Bolivia will export gas to Argentina. Argentina currently imports 5 percent of its gas consumption from Bolivia at a "solidarity" price of USD 3.20 per million cubic meters, while the international price ranges from USD 2.00 to USD 8.00 per million cubic meters. According to reports, the Bolivian government wants a 65 percent increase to more than USD 5 per million cubic meters the price of gas.

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GOA reportedly will repurchase GDP-linked warrants from the debt restructuring.
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¶3. On May 8, local media reported that the GOA is considering repurchasing the GDP-linked warrants that were attached to GOA restructured debt as an incentive to participate in the 2004 restructuring. The GOA repurchases are expected to take place in the second half of the year and aim to reduce the cost the GOA must pay as a result of the continued strong GDP growth. According to the report, the GOA will have to pay USD 390 million in December 2006 to the holders of the warrants because Argentine GDP growth is above the GDP baseline set in the warrants. The GOA issued 62,000 warrants as a result of the exchange and the total stock of warrants (including ARP, EUR and USD instruments) is currently valued at USD 5.5 billion at current market prices. According to financial analysts, the expected value of the warrants ranges from as low as USD 10 per warrant (the current market price) to as high as USD 20 per warrant, depending on

the assumptions for future GDP growth rates.

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GOA counter-cyclical fund may have accumulated ARP 2.6 billion in the first four months of 2006.
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¶4. On May 8, Cronista Comercial reported that Minister of Economy Miceli will soon announce that the GOA's counter-cyclical fiscal fund reached ARP 2.6 billion in the first four months of the year -- 45 percent above the budgeted amount. Former Economy Minister Lavagna announced the creation of the counter-cyclical fund in late 2005, to be funded by the excess of actual tax collections over the budgeted amount, but the GOA has never provided any details on its implementation. Some government officials oppose any public announcement on the counter-cyclical fund due to concerns that it may generate claims from different sectors of the economy. Others advocate transparency about the fund as a way to help the GOA in its crusade against inflation. According to analysts, the counter-cyclical fund may reach ARP 5.9-6.7 billion (or 1 percent of GDP) in 2006.

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GOA unblocks beef shipments exempt from the export ban and presents a ARP 860 million cattle sector development plan to promote the sector through 2010.
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¶5. On May 9, the GOA unblocked beef shipments that had been delayed in port for fifteen days even though they were exempt from the GOA's temporary ban on beef exports. Some were containers of beef sold to the European Union under the Hilton quota, while others held products sold before the ban went into effect. Also, Minister of Economy Miceli presented a cattle sector development program for ARP 860 million over the next four years. The program aims to increase the supply of bovine cattle by 1.4 million animals per year to help stabilize beef prices

¶6. Meanwhile on May 8, Swift -- the largest beef processing plant-- suspended 600 employees at its Rosario plant due to the beef export ban. This suspension comes on top of Swift's dismissal of 736 employees two weeks ago. According to beef sector unions, 8,400 employees already have been suspended since the beginning of the GOA export ban.

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Private utilities companies post losses in the first quarter of 2006.
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¶7. On May 10, many private utility companies announced losses for the first quarter, mainly due to their difficulties in paying their dollar-denominated debt while their tariff income is in pesos. Electrical generator Central Puerto posted losses of ARP 107 million, compared to an ARP 11 million profit during the same period last year. Gas distributor Metrogas reported losses of ARP 25 million, compared to a ARP 29 million profit in the first quarter of last year. Electrical distributor Edesur reported a ARP 9 million profit in the first quarter that assumes it will receive a retroactive tariff increase that is awaiting President Kirchner's approval. Without taking into account this expected tariff increase, Edesur would have posted a ARP 19 million loss.

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Repsol-YPF announces plan to sell 15-20 percent of the stock of its Argentine subsidiary.
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¶8. On May 11, the President of YPF-Repsol, Antonio

Brufau, announced that the company plans to sell off 15-20 percent of the stock of YPF (its Argentine subsidiary) on the stock exchange. YPF currently is valued at USD 20 billion, so 20 percent of the stock would provide USD 5 billion to the company without giving up its control over YPF. Local media also reported rumors that President Kirchner wants a domestic group to own 15 percent of YPF. However, a Ministry of Planning spokesman denied that that the GOA is promoting the purchase by local businessmen.

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GOA requires retailers to clearly post prices of food in attempt to help prices under control.
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¶9. On May 8, the GOA published on the Official Gazette a resolution requiring retailers to clearly post the prices of beef, bread, fish and seafood with signs specifying the price of the products by variety or by cut (in the case of meat). The resolution also sets penalties for retailers who do not comply with the labeling requirement. According to the Secretary for Consumer Protection, Guillermo Moreno, the measure is intended to prevent deception of consumers and help keep prices under control.

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BCRA earns USD 500 million on its gold reserves.
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¶10. The recent increase in the price of gold has translated into a USD 500 million gain for the Argentine Central Bank (BCRA). The BCRA invested USD 700 million (5.3 percent of its reserves) in gold two years ago. Gold prices have increased 44 percent so far in 2006, hitting a 25-year high of USD 722 per ounce on May 11.

¶11. Prices of other metals such as copper, iron,

nickel and zinc have also jumped this year. According to the Economia & Regiones think tank, the increase in metal prices may negatively impact the Argentine construction sector due to the increase in construction costs.

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BCRA rolls over its maturities and issues one-year Lebacs.
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¶12. The BCRA received ARP 1.5 billion in bids at its May 9 Lebac and Nobac auction, compared to the ARP 1.0 billion in Lebacs that came due during the week. Lebac accepted bids totaled ARP 857 million representing 82 percent of the total, while Nobacs represented the remaining 18 percent. The yield on the 28-day Lebac decreased 7 basis points from 6.57 percent to 6.50 percent, while the yield on the 56-day Lebac decreased slightly from 6.85 percent to 6.80 percent and the yield on the 84-day Lebac decreased from 7.08 percent to 7 percent. For the first time this year, the BCRA was able to issue ARP 113 million in 1-year Lebac in this auction, at a rate of 11.45 percent. Lebacs for maturities of more than one-year were withdrawn due to lack of interest. The spread on the one-year Nobac decreased from 2.20 percent to 2.16 percent, while the spread on the two-year Nobac also from 3.45 percent to 3.39 percent. The Badlar rate (the base rate for Nobacs) is currently at 9.1 percent.

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The peso was unchanged against the USD this week, closing at 3.06 ARP/USD.
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¶13. The peso remained flat versus the USD this week, closing at 3.06 ARP/USD. The BCRA's strong

intervention in the foreign exchange market this week prevented the peso from appreciating despite large dollar sales by agricultural exporters as a result of the harvest. The BCRA purchased USD 423 million in the FX market in the first four days of the week, a daily average of USD 103 million so far this month, compared to a daily average of USD 62 million during the same period last year. The peso exchange rate has depreciated 0.3 percent since the beginning of the calendar year. The BCRA's reserves now stand at USD 23.5 billion, and have increased USD 4.5 billion, or 27%, since the GOA prepaid all of its IMF debt on January 2.

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Commentary of the Week: "Sanitary Conditions and Poverty in the Beef Sector", by Julio Nogues. (Note: Translated and edited from an article published in Cronista Comercial on May 8. End Note.)
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¶14. It is possible, but not certain, that a reduction in the price of beef will reduce poverty. ... For example, ... in the case of a 10 percent price cut, the number of people that effectively will rise out of poverty due to the reduction in the cost of the Basic Basket of Goods is only a fraction (approximately 15 percent) of the number of people who are employed in the beef production chain and who potentially will see their incomes reduced as a consequence of this policy.

¶15. The beef production chain employs people with relatively low levels of qualifications, both in the production side and in the processing. Thus, a reduction of their incomes, whether it is in the form of layoffs, as we are already seeing, or a reduction in real salaries due to the drop in the sector's

profitability, could create as much or more poverty than the number of people who effectively escape that condition as a consequence of the price reduction.

¶16. There is significant uncertainty about the impact of the GOA's beef policy, so it is also possible that poverty would be reduced by letting prices adjust to supply and demand. This could occur as a result of greater investment and production in the beef production chain that, as I noted already, is labor intensive and employs mainly people with low qualifications. On whose side has GOA economic policy been, historically? Without any doubt, on average over the last 50 years, Argentine economic policies have been intensely anti-beef producers. From the 1960's to the end of the 1980's, Argentine trade policies imposed prices on beef producers that were between 30 percent and 50 percent below international prices. This was the period with the greatest state intervention.

¶17. Trade policies have not been the only source of discrimination. It also is relevant to recall that as a result of the historic failure to eradicate hoof-and-mouth disease, Argentina cannot export to markets such as Japan and South Korea, which in value terms represent more than 60 percent of world imports of beef. These countries only import from countries that are free of hoof-and-mouth disease without vaccination. As a consequence, according to FAO data, in 2004, our unit export price was USD 1,738 per ton while that of Australia, which is a country free of hoof-and-mouth without vaccination, was USD 2,733 per ton, or 57 percent higher.

¶18. Things have been getting worse for the beef sector since 2000. As is well known, that was the year in which Argentina suffered an outbreak of hoof-and-mouth and tried to hide it from the international community. Markets were closed as a result of this outbreak, and Argentina lost international credibility

as a consequence of the attempt to conceal it. How relevant is the concept of credibility? Let us see.

¶19. In addition to Argentina, the 2000 outbreak affected Brazil and Uruguay. However, the subsequent treatment of the affected countries by the international community was not equal For example, while in 2003 the United States and Canada, who are important importers of beef, re-opened their markets to Uruguayan beef, they have not yet reopened with Argentina. .... Until the hoof-and-mouth outbreak, in most years since 1998, importing countries paid more per kilo for Argentine beef than for Uruguayan due to the international reputation of our beef. If that is so, our reputation was damaged in 2000 and has not yet recovered, and the price difference has moved in favor of Uruguay. On average since they reopened their markets, importing countries have paid 32 percent more for Uruguayan beef.

¶20. To recap, as a consequence of trade policies and its sanitary status, Argentina has the lowest beef prices among the efficient producer countries. It is possible that this also has reduced poverty, but it also is possible that it has increased it. The second conclusion is that as opposed to trade policies of a single company -- which could be changed from one day to another -- the loss of a country's credibility has long-term, negative economic consequences. (Note: We reproduce selected articles by local experts for the benefit of our readers. The opinions expressed are those of the authors, not of the Embassy. End Note.)

GUTIERREZ